

GAYLORD ENTERTAINMENT CO /DE

Form 10-Q

August 07, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2009**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1-13079**

**GAYLORD ENTERTAINMENT COMPANY**

(Exact name of registrant as specified in its charter)

Delaware

73-0664379

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Gaylord Drive  
Nashville, Tennessee 37214  
(Address of principal executive offices)

(Zip Code)

(615) 316-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Class**  
Common Stock, \$.01 par value

**Outstanding as of July 31, 2009**  
40,976,998 shares



**GAYLORD ENTERTAINMENT COMPANY**  
**FORM 10-Q**  
**For the Quarter Ended June 30, 2009**  
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**Table of Contents****Part I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except per share data)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues	\$ 218,256	\$ 258,269	\$ 430,575	\$ 453,504
Operating expenses:				
Operating costs	126,379	149,043	257,744	262,531
Selling, general and administrative	42,883	48,114	87,744	87,656
Preopening costs		3,246		18,821
Impairment and other charges				12,031
Depreciation and amortization	28,647	28,998	56,718	50,209
Operating income	20,347	28,868	28,369	22,256
Interest expense, net of amounts capitalized	(18,229)	(18,548)	(36,829)	(22,127)
Interest income	4,183	3,773	8,029	4,097
(Loss) income from unconsolidated companies	(12)	(454)	117	(218)
Gain on extinguishment of debt	8,169		24,726	
Other gains and (losses), net	3,654	(9)	3,504	50
Income before provision for income taxes	18,112	13,630	27,916	4,058
Provision for income taxes	7,983	5,082	14,269	2,358
Income from continuing operations	10,129	8,548	13,647	1,700
(Loss) income from discontinued operations, net of income taxes	(78)	239	(169)	(219)
Net income	\$ 10,051	\$ 8,787	\$ 13,478	\$ 1,481
Basic income per share:				
Income from continuing operations	\$ 0.25	\$ 0.21	\$ 0.33	\$ 0.04
(Loss) income from discontinued operations, net of income taxes		0.01		
Net income	\$ 0.25	\$ 0.22	\$ 0.33	\$ 0.04

Fully diluted income per share:				
Income from continuing operations	\$ 0.25	\$ 0.21	\$ 0.33	\$ 0.04
(Loss) income from discontinued operations, net of income taxes	(0.01)			
Net income	\$ 0.24	\$ 0.21	\$ 0.33	\$ 0.04

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Table of Contents****GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)  
(In thousands)**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents unrestricted	\$ 28,385	\$ 1,043
Cash and cash equivalents restricted	1,158	1,165
Trade receivables, less allowance of \$776 and \$2,016, respectively	52,243	49,114
Deferred income taxes	5,272	6,266
Other current assets	55,696	50,793
Current assets of discontinued operations	62	197
<b>Total current assets</b>	<b>142,816</b>	<b>108,578</b>
Property and equipment, net of accumulated depreciation	2,194,149	2,227,574
Notes receivable, net of current portion	138,721	146,866
Intangible assets, net of accumulated amortization	94	121
Goodwill	6,915	6,915
Indefinite lived intangible assets	1,480	1,480
Investments	937	1,131
Estimated fair value of derivative assets		6,235
Long-term deferred financing costs	15,580	18,888
Other long-term assets	43,451	42,591
<b>Total assets</b>	<b>\$ 2,544,143</b>	<b>\$ 2,560,379</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 1,881	\$ 1,904
Accounts payable and accrued liabilities	145,104	168,155
Estimated fair value of derivative liabilities	769	1,606
Current liabilities of discontinued operations	1,209	1,329
<b>Total current liabilities</b>	<b>148,963</b>	<b>172,994</b>
Long-term debt and capital lease obligations, net of current portion	1,239,099	1,260,997
Deferred income taxes	80,145	62,656
Estimated fair value of derivative liabilities	26,016	28,489
Other long-term liabilities	127,963	131,578
Long-term liabilities of discontinued operations	444	446
Commitments and contingencies		

Stockholders' equity:

Preferred stock, \$.01 par value, 100,000 shares authorized, no shares issued or outstanding		
Common stock, \$.01 par value, 150,000 shares authorized, 40,969 and 40,916 shares issued and outstanding, respectively	<b>410</b>	409
Additional paid-in capital	<b>719,007</b>	711,444
Treasury stock of 385 shares, at cost	<b>(4,599)</b>	
Retained earnings	<b>248,229</b>	234,751
Accumulated other comprehensive loss	<b>(41,534)</b>	(43,385)
 Total stockholders' equity	 <b>921,513</b>	 903,219
 Total liabilities and stockholders' equity	 <b>\$ 2,544,143</b>	 \$ 2,560,379

The accompanying notes are an integral part of these condensed consolidated financial statements.



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**GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2009 and 2008**  
**(Unaudited)**  
**(In thousands)**

	<b>2009</b>	<b>2008</b>
Cash Flows from Operating Activities:		
Net income	\$ 13,478	\$ 1,481
Amounts to reconcile net income to net cash flows provided by operating activities:		
Loss from discontinued operations, net of taxes	169	219
(Income) loss from unconsolidated companies	(117)	218
Impairment and other charges		12,031
Provision (benefit) for deferred income taxes	17,856	(1,712)
Depreciation and amortization	56,718	50,209
Amortization of deferred financing costs	2,256	1,993
Stock-based compensation expense	3,986	6,120
Excess tax benefit from stock-based compensation		(832)
Gain on extinguishment of debt	(24,726)	
Loss on sales of assets	223	119
Changes in (net of acquisitions and divestitures):		
Trade receivables	(3,129)	(40,123)
Interest receivable	(7,865)	
Accounts payable and accrued liabilities	(8,988)	29,833
Other assets and liabilities	(3,772)	(11,532)
Net cash flows provided by operating activities – continuing operations	<b>46,089</b>	48,024
Net cash flows used in operating activities – discontinued operations	<b>(235)</b>	(1,518)
Net cash flows provided by operating activities	<b>45,854</b>	46,506
Cash Flows from Investing Activities:		
Purchases of property and equipment	(34,929)	(277,114)
Collection of notes receivable	12,849	308
Other investing activities	(498)	(9,361)
Net cash flows used in investing activities – continuing operations	<b>(22,578)</b>	(286,167)
Net cash flows provided by investing activities – discontinued operations		792
Net cash flows used in investing activities	<b>(22,578)</b>	(285,375)
Cash Flows from Financing Activities:		
Net borrowings under credit facility	68,000	267,000
Repurchases of senior notes	(64,046)	
Proceeds from the termination of an interest rate swap on senior notes	5,000	
Purchases of Company's common stock		(19,999)
Purchases of treasury stock	(4,599)	

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Proceeds from exercise of stock option and purchase plans	<b>121</b>	157
Excess tax benefit from stock-based compensation		832
Decrease in restricted cash and cash equivalents	<b>7</b>	8
Other financing activities, net	<b>(417)</b>	(675)
Net cash flows provided by financing activities – continuing operations	<b>4,066</b>	247,323
Net cash flows used in financing activities – discontinued operations		
Net cash flows provided by financing activities	<b>4,066</b>	247,323
Net change in cash and cash equivalents	<b>27,342</b>	8,454
Cash and cash equivalents – unrestricted, beginning of period	<b>1,043</b>	23,592
Cash and cash equivalents – unrestricted, end of period	<b>\$ 28,385</b>	\$ 32,046

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**GAYLORD ENTERTAINMENT COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**1. BASIS OF PRESENTATION:**

The condensed consolidated financial statements include the accounts of Gaylord Entertainment Company and its subsidiaries (the Company) and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the financial information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2008 filed with the SEC. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim periods have been included. All adjustments are of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results for the full year because of seasonal and short-term variations.

**2. NEWLY ISSUED ACCOUNTING STANDARDS:**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company adopted the provisions of this statement during the first quarter of 2008. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which provided a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company adopted the provisions of SFAS 157 with respect to its non-financial assets and non-financial liabilities during the first quarter of 2009. The adoption of this statement with respect to non-financial assets and non-financial liabilities did not have a material impact on the Company's consolidated results of operations and financial condition. See Note 16 for additional disclosures. In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) replaces SFAS 141 and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. SFAS 141(R) requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141(R), the requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, no amounts should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, *Accounting for Contingencies*. This statement is effective prospectively and the Company adopted the provisions of this statement in the first quarter of 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial statements.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ). SFAS 161 is intended to improve financial reporting of derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The Company adopted the provisions of this statement in the first quarter of 2009, and the adoption of SFAS 161 did not have a material impact on the Company's consolidated financial position or results of operations. See Note 10 for additional disclosures.

In November 2008, the Emerging Issues Task Force ( EITF ) reached a consensus on Issue 08-6, *Accounting for Equity Method Investments* ( EITF 08-6 ). EITF 08-6 concludes that an equity method investment should be recognized by using a cost accumulation model. In addition, equity method investments as a whole should be assessed for other-than-temporary impairment. The Company adopted the provisions of this statement in the first quarter of 2009, and the adoption of EITF 08-6 did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, which extends the disclosure requirements of FASB Statement No. 107, *Interim Disclosures about Fair Value of Financial Instruments*, to interim financial statements of publicly traded companies. The Company is now required to disclose, on a quarterly basis, fair value information for financial instruments that are not reflected in the condensed consolidated balance sheets at fair value. The Company adopted the provisions of this Staff Position in the second quarter of 2009, and this adoption did not have a material impact on the Company's consolidated financial position or results of operations. See Note 16 for additional disclosures.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ). SFAS 165 was issued in order to establish principles and requirements for reviewing and reporting subsequent events and requires disclosure of the date through which subsequent events are evaluated and whether the date corresponds with the time at which the financial statements were available for issue (as defined) or were issued. The Company adopted the provisions of SFAS 165 during the second quarter of 2009, and the adoption of SFAS 165 did not have a material impact on the Company's consolidated financial position or results of operations. See Note 20 for additional disclosures.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS 167 ). SFAS 167 amends Interpretation No. 46(R) to require ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before SFAS 167, reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity was required only when specific events occurred. SFAS 167 will be effective for the Company beginning January 1, 2010, and the Company is assessing the potential impact of this statement on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ( SFAS 168 ). SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ( GAAP ), superseding existing FASB, American Institute of Certified Public Accountants, EITF, and related accounting literature. SFAS 168 does not change the content of GAAP, but reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant SEC guidance organized using the same topical structure in separate sections. SFAS 168 became effective for the Company on July 1, 2009. This will have an impact on the footnotes to the Company's financial statements, as all future references to authoritative accounting literature will be references in accordance with SFAS 168.

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The weighted average number of common shares outstanding is calculated as follows:

(in thousands)	<b>Three Months Ended June</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Weighted average shares outstanding	<b>40,937</b>	40,812	<b>40,922</b>	41,029
Effect of dilutive stock options	<b>220</b>	371	<b>216</b>	486
Weighted average shares outstanding assuming dilution	<b>41,157</b>	41,183	<b>41,138</b>	41,515

The Company had stock-based compensation awards outstanding with respect to approximately 5,034,000 and 2,795,000 shares of common stock as of June 30, 2009 and 2008, respectively, that could potentially dilute earnings per share in the future but were excluded from the computation of diluted earnings per share for the three months ended June 30, 2009 and 2008, respectively, as the effect of their inclusion would have been anti-dilutive.

The Company had stock-based compensation awards outstanding with respect to approximately 5,034,000 and 2,456,000 shares of common stock as of June 30, 2009 and 2008, respectively, that could potentially dilute earnings per share in the future but were excluded from the computation of diluted earnings per share for the six months ended June 30, 2009 and 2008, respectively, as the effect of their inclusion would have been anti-dilutive.

**4. COMPREHENSIVE INCOME:**

Comprehensive income is as follows for the respective periods:

(in thousands)	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Net income	<b>\$ 10,051</b>	\$ 8,787
Unrealized gain (loss) on natural gas swaps, net of deferred income taxes of \$378 and \$132	<b>601</b>	(238)
Unrealized gain on interest rate swaps, net of deferred income taxes of \$1,024 and \$2,525	<b>1,841</b>	4,309
Comprehensive income	<b>\$ 12,493</b>	\$ 12,858

(in thousands)	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Net income	<b>\$ 13,478</b>	\$ 1,481
Unrealized gain (loss) on natural gas swaps, net of deferred income taxes of \$236 and \$148	<b>377</b>	280
Unrealized gain on interest rate swaps, net of deferred income taxes of \$934 and \$867	<b>1,539</b>	1,553
Other	<b>(66)</b>	
Comprehensive income	<b>\$ 15,328</b>	\$ 3,314

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A rollforward of the amounts included in comprehensive income related to the fair value of financial derivative instruments that qualify for hedge accounting, net of taxes, for the six months ended June 30, 2009 is as follows (in thousands):

	<b>Interest Rate Derivatives</b>	<b>Natural Gas Derivatives</b>	<b>Total Derivatives</b>
Balance at December 31, 2008	\$(18,258)	\$ (867)	\$(19,125)
<b>2009 changes in fair value</b>	<b>1,539</b>	<b>377</b>	<b>1,916</b>
<b>Reclassification to earnings</b>			
<b>Balance at June 30, 2009</b>	<b>\$(16,719)</b>	<b>\$ (490)</b>	<b>\$(17,209)</b>

**5. PROPERTY AND EQUIPMENT:**

Property and equipment of continuing operations at June 30, 2009 and December 31, 2008 is recorded at cost and summarized as follows:

(in thousands)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Land and land improvements	\$ 210,554	\$ 198,169
Buildings	2,183,819	2,180,232
Furniture, fixtures and equipment	503,947	510,358
Construction in progress	44,631	47,234
	<b>2,942,951</b>	2,935,993
Accumulated depreciation	<b>(748,802)</b>	(708,419)
Property and equipment, net	<b>\$ 2,194,149</b>	\$ 2,227,574

Depreciation expense, including amortization of assets under capital lease obligations, of continuing operations was \$26.9 million and \$27.7 million for the three months ended June 30, 2009 and 2008, respectively, and was \$53.3 million and \$47.9 million for the six months ended June 30, 2009 and 2008, respectively.

**6. NOTES RECEIVABLE:**

In connection with the development of the Gaylord National Resort and Convention Center ( Gaylord National ), Prince George's County, Maryland ( the County ) issued three series of bonds. The first bond issuance, with a face value of \$65 million, was issued by the County in April 2005 to support the cost of infrastructure being constructed by the project developer, such as roads, water and sewer lines. The second bond issuance, with a face value of \$95 million ( Series A Bond ), was issued by the County in April 2005 and placed into escrow until substantial completion of the convention center and 1,500 rooms within the hotel. The Series A Bond and the third bond issuance, with a face value of \$50 million ( Series B Bond ), were delivered to the Company upon substantial completion and opening of the Gaylord National on April 2, 2008. The interest rate on the Series A Bond and Series B Bond is 8.0% and 10.0%, respectively.

The Company is currently holding the Series A Bond and Series B Bond and receiving the debt service thereon, which is payable from tax increments, hotel taxes and special hotel rental taxes generated from the development.

Accordingly, during the second quarter of 2008, the Company calculated the present value of the future debt service payments from the Series A Bond and Series B Bond based on their effective interest rates of 8.04% and 11.42%, respectively, at the time the bonds were delivered to the Company and recorded a note receivable and offset to

property and equipment in the amounts of \$93.8 million and \$38.3 million, respectively, in the accompanying condensed consolidated balance sheet. The Company also calculated the present value of

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the interest that had accrued on the Series A Bond between its date of issuance and delivery to the Company based on its effective interest rate of 8.04% at the time the bond was delivered to the Company and recorded a note receivable and offset to property and equipment in the amount of \$18.3 million in the accompanying condensed consolidated balance sheet. The Company is recording the amortization of discount on these notes receivable as interest income over the life of the notes.

During the three months and six months ended June 30, 2009, the Company recorded interest income of \$4.1 million and \$7.9 million, respectively, on these bonds, which included \$3.1 million and \$6.2 million, respectively, of interest that accrued on the bonds subsequent to their delivery to the Company and \$1.0 million and \$1.6 million, respectively, related to amortization of the discount on the bonds. The Company received a payment of \$12.6 million during the six months ended June 30, 2009 relating to this note receivable.

During the three months and six months ended June 30, 2008, the Company recorded interest income of \$3.4 million on these bonds, which included \$3.0 million of interest that accrued on the bonds subsequent to their delivery to the Company and \$0.4 million related to amortization of the discount on the bonds.

**7. IMPAIRMENT AND OTHER CHARGES:**

On April 15, 2008, the Company terminated the Agreement of Purchase and Sale dated as of November 19, 2007 (the Purchase Agreement ) with LCWW Partners, a Texas joint venture, and La Cantera Development Company, a Delaware corporation (collectively, Sellers ), to acquire the assets related to the Westin La Cantera Resort, located in San Antonio, Texas, on the basis that it did not obtain satisfactory financing. Pursuant to the terms of the Purchase Agreement and a subsequent amendment, the Company forfeited a \$10.0 million deposit previously paid to Sellers. As a result, the Company recorded an impairment charge of \$12.0 million during the six months ended June 30, 2008 to write off the deposit, as well as certain transaction-related expenses that were also capitalized in connection with the potential acquisition.

**8. DISCONTINUED OPERATIONS:**

The Company has reflected the following business as discontinued operations. The results of operations, net of taxes, and the carrying value of the assets and liabilities of these businesses have been reflected in the accompanying condensed consolidated financial statements as discontinued operations for all periods presented.

***ResortQuest***

During the second quarter of 2007, in a continued effort to focus on its Gaylord Hotel and Opry and Attractions businesses, the Company committed to a plan of disposal of its ResortQuest business. On May 31, 2007, the Company completed the sale of its ResortQuest Hawaii operations through the transfer of all of its equity interests in its ResortQuest Hawaii subsidiaries ( ResortQuest Hawaii ) to Vacation Holdings Hawaii, Inc., an affiliated company of Interval International, for \$109.1 million in cash, prior to giving effect to a purchase price adjustment based on the working capital of ResortQuest Hawaii as of the closing. The Company retained its 19.9% ownership interest in RHAC Holdings, LLC and its 18.1% ownership interest in Waipouli Holdings LLC, which ownership interests were excluded from this transaction. The Company recognized a pretax gain of \$50.0 million related to the sale of ResortQuest Hawaii during 2007.

On June 1, 2007, the Company completed the sale of the remainder of the operations of its ResortQuest subsidiary through the transfer of all of its capital stock in its ResortQuest Mainland subsidiary ( ResortQuest Mainland ) to BEI-RZT Corporation, a subsidiary of Leucadia National Corporation, for \$35.0 million, prior to giving effect to certain purchase price adjustments, including a purchase price adjustment based on the working capital of ResortQuest Mainland as of the closing. The Company recognized a pretax loss of \$59.5 million related to the sale of ResortQuest Mainland in 2007.



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The following table reflects the results of operations of businesses accounted for as discontinued operations for the respective periods:

(in thousands)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating loss:</b>				
ResortQuest	\$ (87)	\$ (446)	\$ (327)	\$ (933)
Other			16	
Restructuring charges		(84)		(262)
<b>Total operating loss</b>	<b>(87)</b>	<b>(530)</b>	<b>(311)</b>	<b>(1,195)</b>
<b>Interest expense</b>			<b>(1)</b>	
<b>Other gains and (losses):</b>				
ResortQuest		915		792
Other			45	50
(Loss) income before (benefit) provision for income taxes	<b>(87)</b>	385	<b>(267)</b>	(353)
<b>(Benefit) provision for income taxes</b>	<b>(9)</b>	146	<b>(98)</b>	(134)
(Loss) income from discontinued operations	<b>\$ (78)</b>	\$ 239	<b>\$ (169)</b>	\$ (219)

The assets and liabilities of the discontinued operations presented in the accompanying condensed consolidated balance sheets are comprised of:

(in thousands)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Current assets:</b>		
Other current assets	\$ 62	\$ 197
<b>Total current assets</b>	<b>62</b>	197
<b>Total assets</b>	<b>\$ 62</b>	\$ 197
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,209	\$ 1,329
<b>Total current liabilities</b>	<b>1,209</b>	1,329

Other long-term liabilities	<b>444</b>	446
<b>Total long-term liabilities</b>	<b>444</b>	446
<b>Total liabilities</b>	<b>\$ 1,653</b>	<b>\$ 1,775</b>

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Long-term debt and capitalized lease obligations at June 30, 2009 and December 31, 2008 consisted of the following:

(in thousands)	June 30, 2009	December 31, 2008
\$1.0 Billion Credit Facility, interest and maturity as described below	\$ 790,500	\$ 722,500
Senior Notes, interest at 8.00%, maturing November 15, 2013	260,310	321,459
Senior Notes, interest at 6.75%, maturing November 15, 2014	180,700	207,700
Nashville Predators Promissory Note, interest at 6.00%, maturing October 5, 2010	2,000	2,000
Capital lease obligations	2,589	3,007
Fair value hedge effective for 8.00% Senior Notes		6,235
Deferred gain on terminated fair value hedge	4,881	
Total debt	1,240,980	1,262,901
Less amounts due within one year	(1,881)	(1,904)
Total long-term debt	\$ 1,239,099	\$ 1,260,997

***\$1.0 Billion Credit Facility***

The Company entered into an Amended and Restated Credit Agreement effective March 23, 2007, by and among the Company, certain subsidiaries of the Company party thereto, as guarantors, the lenders party thereto and Bank of America, N.A., as administrative agent (the "\$1.0 Billion Credit Facility"). Prior to its refinancing on July 25, 2008, the \$1.0 Billion Credit Facility consisted of the following components: (a) a \$300.0 million senior secured revolving credit facility, which included a \$50.0 million letter of credit sublimit and a \$30.0 million sublimit for swingline loans, and (b) a \$700.0 million senior secured delayed draw term loan facility, which could be drawn on in one or more advances during its term. The revolving loan, letters of credit and term loan were set to mature on March 9, 2010. At the Company's election, the revolving loans and the term loans bore interest at an annual rate of LIBOR plus an applicable margin ranging from 1.25% to 1.75% or the lending banks' base rate plus an applicable margin ranging from 0.00% to 0.50%, subject to adjustments based on the Company's borrowing base leverage. The Company entered into interest rate swaps with respect to \$403.0 million aggregate principal amount of borrowings under the delayed draw term loan facility to convert the variable rate on those borrowings to a fixed weighted average interest rate of 2.98% plus the applicable margin on these borrowings during the term of the swap agreements. The Company terminated these swaps in connection with its refinancing of the \$1.0 Billion Credit Facility. Interest on the Company's borrowings was payable quarterly, in arrears, for base rate loans and at the end of each interest rate period for LIBOR rate-based loans. Principal was payable in full at maturity. The Company was required to pay a commitment fee ranging from 0.125% to 0.35% per year of the average unused portion of the \$1.0 Billion Credit Facility.

On July 25, 2008, the Company refinanced the \$1.0 Billion Credit Facility by entering into a Second Amended and Restated Credit Agreement (the "New \$1.0 Billion Credit Facility") by and among the Company, certain subsidiaries of the Company party thereto, as guarantors, the lenders party thereto and Bank of America, N.A., as administrative agent. The New \$1.0 Billion Credit Facility consists of the following components: (a) \$300.0 million senior secured revolving credit facility, which includes a \$50.0 million letter of credit sublimit and a \$30.0 million sublimit for swingline loans, and (b) a \$700.0 million senior secured term loan facility. The term loan facility was fully funded at closing. The New \$1.0 Billion Credit Facility also includes an accordion feature that will allow the Company to increase the New \$1.0 Billion Credit Facility by a total of up to \$400.0 million in no more than three occasions, subject to securing additional commitments from existing lenders or new lending institutions. The revolving loan, letters of credit, and term loan mature on July 25, 2012. At the



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Company's election, the revolving loans and the term loans will bear interest at an annual rate of LIBOR plus 2.50% or a base rate (the higher of the lead bank's prime rate and the federal funds rate) plus 0.50%. As further discussed in Note 10, the Company entered into interest rate swaps with respect to \$500.0 million aggregate principal amount of borrowings under the term loan portion to convert the variable rate on those borrowings to a fixed weighted average interest rate of 3.94% plus the applicable margin on these borrowings during the term of the swap agreements. Interest on the Company's borrowings is payable quarterly, in arrears, for base rate loans and at the end of each interest rate period for LIBOR rate-based loans. Principal is payable in full at maturity. The Company will be required to pay a commitment fee of 0.25% per year of the average unused portion of the New \$1.0 Billion Credit Facility.

The New \$1.0 Billion Credit Facility is (i) secured by a first mortgage and lien on the real property and related personal and intellectual property of the Company's Gaylord Opryland hotel, Gaylord Texan hotel, Gaylord Palms hotel and Gaylord National hotel, and pledges of equity interests in the entities that own such properties and (ii) guaranteed by each of the four wholly owned subsidiaries that own the four hotels. Advances are subject to a 55% borrowing base, based on the appraisal value of the hotel properties (reduced to 50% in the event a hotel property is sold).

As of June 30, 2009, the Company was in compliance with all of its covenants related to its debt. As of June 30, 2009, \$790.5 million of borrowings were outstanding under the \$1.0 Billion Credit Facility, and the lending banks had issued \$9.9 million of letters of credit under the facility for the Company, which left \$199.6 million of availability under the credit facility (subject to the satisfaction of debt incurrence tests under the indentures governing our senior notes).

***Repurchase of Senior Notes***

During the three months ended June 30, 2009, the Company repurchased \$28.3 million in aggregate principal amount of its outstanding senior notes (\$21.3 million of 8% Senior Notes and \$7.0 million of 6.75% Senior Notes) for \$20.5 million. After adjusting for accrued interest, the write-off of \$0.4 million in deferred financing costs, and other costs, the Company recorded a pretax gain of \$8.2 million as a result of the repurchases, which is recorded as a gain on extinguishment of debt in the accompanying condensed consolidated statement of operations for the three months ended June 30, 2009.

During the six months ended June 30, 2009, the Company repurchased \$88.1 million in aggregate principal amount of its outstanding senior notes (\$61.1 million of 8% Senior Notes and \$27.0 million of 6.75% Senior Notes) for \$64.0 million. After adjusting for accrued interest, the write-off of \$1.1 million in deferred financing costs, and other costs, the Company recorded a pretax gain of \$24.7 million as a result of the repurchases, which is recorded as a gain on extinguishment of debt in the accompanying condensed consolidated statement of operations for the six months ended June 30, 2009.

**10. DERIVATIVE FINANCIAL INSTRUMENTS:**

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and commodity price risk. Interest rate swaps are entered into to manage interest rate risk associated with portions of the Company's fixed and variable rate borrowings. Natural gas price swaps are entered into to manage the price risk associated with forecasted purchases of natural gas and electricity used by the Company's hotels. The Company designates certain interest rate swaps as cash flow hedges of variable rate borrowings, the remaining interest rate swaps as fair value hedges of fixed rate borrowings, and natural gas price swaps as cash flow hedges of forecasted purchases of natural gas and electricity. All of the Company's derivatives are held for hedging purposes. A portion of the Company's natural gas price swap contracts are considered economic hedges and do not qualify for hedge accounting. The Company does not engage in speculative transactions, nor does it hold or issue financial instruments for trading

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purposes. All of the counterparties to the Company's derivative agreements are financial institutions with at least investment grade credit ratings.

***Cash Flow Hedging Strategy***

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in interest expense when the hedged transactions are interest cash flows associated with variable rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, or ineffectiveness, if any, is recognized in the statement of operations during the current period.

The Company has entered into interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreement utilized by the Company effectively modifies the Company's exposure to interest rate risk by converting \$500.0 million, or 63%, of the Company's variable rate debt outstanding under the term loan portion of the Company's New \$1.0 Billion Credit Facility to a weighted average fixed rate of 3.94% plus the applicable margin on these borrowings, thus reducing the impact of interest rate changes on future interest expense. This agreement involves the receipt of variable rate amounts in exchange for fixed rate interest payments through July 25, 2011, without an exchange of the underlying principal amount. The critical terms of the swap agreements match the critical terms of the borrowings under the term loan portion of the New \$1.0 Billion Credit Facility. Therefore, the Company has designated these interest rate swap agreements as cash flow hedges. As the terms of these derivatives match the terms of the underlying hedged items, there should be no gain (loss) recognized in income on derivatives unless there is a termination of the derivative or the forecasted transaction is determined to be unlikely to occur.

The Company has entered into natural gas price swap contracts to manage the price risk associated with a portion of the Company's forecasted purchases of natural gas and electricity used by the Company's hotels. The objective of the hedge is to reduce the variability of cash flows associated with the forecasted purchases of these commodities. At June 30, 2009, the Company had six variable to fixed natural gas price swap contracts that mature from July 2009 to December 2009 with an aggregate notional amount of approximately 559,000 dekatherms. The Company has designated the majority of these natural gas price swap contracts as cash flow hedges. The Company assesses the correlation of the terms of these derivatives with the terms of the underlying hedged items on a quarterly basis. As these terms are currently highly correlated, there should be no gain (loss) recognized in income on derivatives unless there is a termination of the derivative or the forecasted transaction is determined to be unlikely to occur.

***Fair Value Hedging Strategy***

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, is recognized in the same line item associated with the hedged item in current earnings (e.g., in interest expense when the hedged item is fixed-rate debt).

The Company previously entered into two interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreement utilized by the Company effectively modified the Company's exposure to interest rate risk by converting \$125.0 million of the Company's fixed rate debt outstanding under its 8% Senior Notes to a variable rate equal to six-month LIBOR plus 2.95%, thus reducing the impact of interest rate changes on the fair value of the underlying fixed rate debt. This agreement involved the receipt of fixed rate amounts in exchange for variable rate interest payments through November 15, 2013, without an exchange of the underlying principal amount. The critical terms of the swap agreement mirrored the terms of the 8% Senior Notes. Therefore, the Company designated these interest rate swap agreements as fair value hedges. The

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counterparties under these swap agreements notified the Company that, as permitted by the agreements, each was opting to terminate its portion of the \$125.0 million swap agreement effective May 15, 2009. As stated in the agreement, the two counterparties each paid a \$2.5 million termination fee, plus accrued interest, to the Company on May 15, 2009. Therefore, the Company determined that the fair value of the interest rate swap was \$5.0 million as of the termination date. As a result of this termination, the Company is amortizing the gain on the swap agreement over the remaining term of the 8% Senior Notes using the effective interest method. The amount that the Company anticipates will be reclassified out of long-term debt and into earnings in the next twelve months is a gain of \$1.0 million.

The fair value of the Company's derivative instruments based upon quotes, with appropriate adjustments for non-performance risk of the parties to the derivative contracts, at June 30, 2009 and December 31, 2008 is as follows:

	<b>Asset Derivatives</b>		<b>Liability Derivatives</b>	
	<b>December</b>		<b>December</b>	
	<b>31,</b>		<b>31,</b>	
	<b>June</b>		<b>June</b>	
	<b>30,</b>		<b>30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
(in thousands)				
<b>Derivatives designated as hedging instruments:</b>				
Interest rate swaps fair value hedges	\$	\$ 6,235	\$	\$
Interest rate swaps cash flow hedges			<b>26,016</b>	28,489
Natural gas swaps			<b>769</b>	1,382
<b>Total derivatives designated as hedging instruments</b>	<b>\$</b>	<b>\$ 6,235</b>	<b>\$ 26,785</b>	<b>\$ 29,871</b>
<b>Derivatives not designated as hedging instruments:</b>				
Natural gas swaps	\$	\$	\$	\$ 224
<b>Total derivatives not designated as hedging instruments</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 224</b>
<b>Total derivatives</b>	<b>\$</b>	<b>\$ 6,235</b>	<b>\$ 26,785</b>	<b>\$ 30,095</b>

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The effect of derivative instruments on the statement of operations for the respective periods is as follows (in thousands):

Derivatives in Fair Value	Location of Loss Recognized in Income on	Amount of Loss Recognized in Income on Derivative	
		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
<b>Hedging Relationships</b>	<b>Derivative</b>		
Interest rate swaps	Interest expense, net of amounts capitalized	\$	\$ (1,235)

Hedged Items in Fair Value	Location of Gain Recognized in Income on	Amount of Gain Recognized in Income on Related Hedged Items	
		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
<b>Hedging Relationships</b>	<b>Related Hedged Item</b>		
Fixed Rate Debt	Interest expense, net of amounts capitalized	\$	\$ 1,235

Derivatives in	Amount of Gain Recognized in OCI on Derivative (Effective Portion)		Location of Amount Reclassified from Accumulated OCI into Income	Amount Reclassified from Accumulated OCI into Income	
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
<b>Cash Flow</b>					
<b>Hedging Relationships</b>					
Interest rate swaps	\$ 2,865	\$ 2,473	Interest expense, net of amounts capitalized	\$	\$
Natural gas swaps	979	613	Operating costs		
<b>Total</b>	<b>\$ 3,844</b>	<b>\$ 3,086</b>	<b>Total</b>	<b>\$</b>	<b>\$</b>

Derivatives Not Designated as	Location of Loss Recognized	Amount of Loss Recognized in Income on Derivative	
		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
<b>Hedging Instruments</b>	<b>in Income on Derivative</b>		
Natural gas swaps	Other gains and (losses), net	\$ (8)	\$ (106)

**11. SUPPLEMENTAL CASH FLOW DISCLOSURES:**

Cash paid for interest related to continuing operations for the respective periods was comprised of:



(in thousands)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Debt interest paid	<b>\$ 27,725</b>	\$ 30,057	<b>\$ 38,382</b>	\$ 38,445
Capitalized interest	<b>(408)</b>	(373)	<b>(827)</b>	(15,610)
Cash interest paid, net of capitalized interest	<b>\$ 27,317</b>	\$ 29,684	<b>\$ 37,555</b>	\$ 22,835

Net income taxes (refunded) paid were \$(2.2) million and \$1.5 million for the six months ended June 30, 2009 and 2008, respectively.

As further discussed in Note 6, the Company received two bonds from Prince George's County, Maryland during the second quarter of 2008 in connection with the development of Gaylord National. The receipt of these bonds is reflected as a non-cash activity for an increase in notes receivable and decrease in property and equipment of \$150.4 million in the accompanying condensed consolidated statement of cash flows for the six months ended June 30, 2008.

**Table of Contents****12. STOCK PLANS:**

The Company's 2006 Omnibus Incentive Plan (the "Plan") permits the grant of stock options, restricted stock, and restricted stock units to its directors and employees for up to 2,690,000 shares of common stock. The Plan also provides that no more than 1,350,000 of those shares may be granted for awards other than options or stock appreciation rights. The Company records compensation expense equal to the fair value of each stock option award granted on a straight line basis over the option's vesting period unless the option award contains a market provision, in which case the Company records compensation expense equal to the fair value of each award on a straight line basis over the requisite service period for each separately vesting portion of the award. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing formula. Including shares permitted under previous plans, at June 30, 2009 and December 31, 2008, there were 3,958,481 and 3,750,711 shares, respectively, of the Company's common stock reserved for future issuance pursuant to the exercise of outstanding stock options (prior to giving effect to the surrender of certain stock options by certain executives on August 6, 2009, as described in Note 20).

The Plan also provides for the award of restricted stock and restricted stock units ("Restricted Stock Awards"). The fair value of Restricted Stock Awards is determined based on the market price of the Company's stock at the date of grant. The Company records compensation expense equal to the fair value of each Restricted Stock Award granted over the vesting period. At June 30, 2009 and December 31, 2008, Restricted Stock Awards of 336,344 and 134,276 shares, respectively, were outstanding.

Under its long term incentive plan for key executives ("LTIP") pursuant to the Plan, in February 2008 the Company granted selected executives and other key employees 449,500 restricted stock units ("LTIP Restricted Stock Units") and 650,000 stock options ("LTIP Stock Options"). The LTIP Restricted Stock Units cliff vest at the end of their four-year term. The number of LTIP Restricted Stock Units that vest will be determined at the end of their term based on the achievement of various company-wide performance goals. Based on current projections, the Company expects that portions of the performance goals will be achieved and only one-half of the LTIP Restricted Stock Units granted will vest at the end of their term. The Company is currently recording compensation expense equal to the fair value of one-half of the LTIP Restricted Stock Units granted on a straight-line basis over the vesting period. If there are changes in the expected achievement of the performance goals, the Company will adjust compensation expense accordingly. The fair value of the LTIP Restricted Stock Units was determined based on the market price of the Company's stock at the date of grant. The LTIP Stock Options, which vest two to four years from the date of grant and have a term of ten years, were granted with an exercise price of \$38.00, while the market price of the Company's common stock on the grant date was \$31.02. As a result of this market condition, the Company is recording compensation expense equal to the fair value of each LTIP Stock Option granted on a straight-line basis over the requisite service period for each separately vesting portion of the award. At both June 30, 2009 and December 31, 2008, LTIP Restricted Stock Units of 433,250 shares were outstanding. At both June 30, 2009 and December 31, 2008, LTIP Stock Options of 633,250 shares were outstanding (prior to giving effect to the surrender of certain LTIP Stock Options by certain executives on August 6, 2009, as described in Note 20).

Under its Performance Accelerated Restricted Stock Unit Program ("PARSUP") pursuant to the Plan, the Company granted selected executives and other key employees restricted stock units, the vesting of which occurred upon the earlier of February 2008 or the achievement of various company-wide performance goals. The fair value of PARSUP awards was determined based on the market price of the Company's stock at the date of grant. The Company recorded compensation expense equal to the fair value of each PARSUP award granted on a straight line basis over a period beginning on the grant date and ending February 2008. All PARSUP awards vested in February 2008, but certain recipients elected to defer receipt of their vested PARSUP awards.

The compensation cost that has been charged against pre-tax income for all of the Company's stock-based compensation plans was \$2.2 million and \$3.2 million for the three months ended June 30, 2009 and 2008, respectively, and \$4.0 million and \$6.1 million for the six months ended June 30, 2009 and 2008, respectively.

**Table of Contents****13. RETIREMENT AND POSTRETIREMENT BENEFITS OTHER THAN PENSION PLANS:**

Net periodic pension expense reflected in the accompanying condensed consolidated statements of operations included the following components for the respective periods (in thousands):

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Service cost	\$	\$ 64	\$	\$ 128
Interest cost	<b>1,254</b>	1,306	<b>2,509</b>	2,612
Expected return on plan assets	<b>(961)</b>	(1,204)	<b>(1,922)</b>	(2,408)
Amortization of net actuarial loss	<b>906</b>	296	<b>1,811</b>	592
Amortization of prior service cost	<b>1</b>	1	<b>2</b>	2
Total net periodic pension expense	<b>\$1,200</b>	\$ 463	<b>\$ 2,400</b>	\$ 926

The Company has contributed \$6.2 million to its defined benefit pension plan during the six months ended June 30, 2009, and expects to contribute an additional \$1.2 million during the remainder of 2009.

Net postretirement benefit expense reflected in the accompanying condensed consolidated statements of operations included the following components for the respective periods (in thousands):

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Service cost	\$ <b>10</b>	\$ 22	\$ <b>31</b>	\$ 44
Interest cost	<b>171</b>	300	<b>483</b>	600
Amortization of curtailment gain	<b>(152)</b>	(61)	<b>(214)</b>	(122)
Total net postretirement benefit expense	<b>\$ 29</b>	\$261	<b>\$ 300</b>	\$ 522

**14. INCOME TAXES:**

The Company's effective tax rate as applied to pre-tax income was 44% and 37% for the three months ended June 30, 2009 and 2008, respectively. The Company's increased effective tax rate during the 2009 period was due primarily to the impact of adjustments to valuation allowances for the Company during the 2009 period.

The Company's effective tax rate as applied to pre-tax income was 51% and 58% for the six months ended June 30, 2009 and 2008, respectively. The Company's decreased effective tax rate during the 2009 period was due primarily to a change in a statutory state tax rate in 2008, which resulted in the revaluing of the Company's deferred tax assets and liabilities during the 2008 period, and the movement of a deferred tax asset to an entity with a lower effective tax rate during the 2008 period, partially offset by the impact of adjustments to valuation allowances for the Company during the 2009 period.

As of June 30, 2009 and December 31, 2008, the Company had \$14.4 million and \$13.1 million of unrecognized tax benefits, respectively, of which \$7.4 million and \$6.9 million, respectively, would affect the Company's effective tax rate if recognized. The increase in the liability during 2009 is due primarily to a change in judgment related to a tax position taken in a prior year in addition to interest accrued in the current year. These liabilities are recorded in other long-term liabilities in the accompanying condensed consolidated balance sheets. It is expected that the unrecognized tax benefits will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the



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Company. As of June 30, 2009 and December 31, 2008, the Company had accrued \$1.0 million and \$0.7 million, respectively, of interest and \$0 of penalties related to uncertain tax positions.

**15. COMMITMENTS AND CONTINGENCIES:**

On September 3, 2008, the Company announced it had entered into a land purchase agreement with DMB Mesa Proving Grounds LLC, an affiliate of DMB Associates, Inc. ( DMB ), to create a resort and convention hotel at the Mesa Proving Grounds in Mesa, Arizona, which is located approximately 30 miles from downtown Phoenix. The DMB development is planned to host an urban environment that features a Gaylord resort property, a retail development, a golf course, office space, residential offerings and significant other mixed-use components. The Company's purchase agreement includes the purchase of 100 acres of real estate within the 3,200-acre Mesa Proving Grounds. The project is contingent on the finalization of entitlements and incentives, and final approval by the Company's board of directors. The Company made an initial deposit of a portion of the land purchase price upon execution of the agreement with DMB, and additional deposit amounts are due upon the occurrence of various development milestones, including required governmental approvals of the entitlements and incentives. These deposits are refundable to the Company upon a termination of the agreement with DMB during a specified due diligence period, except in the event of a breach of the agreement by the Company. The timing of this development is uncertain, and the Company has not made any financing plans or, except as described above, made any commitments in connection with the proposed development.

The Company is considering other potential hotel sites throughout the country. The timing and extent of any of these development projects is uncertain, and the Company has not made any commitments, received any government approvals or made any financing plans in connection with these development projects.

In August 2008, a union-affiliated pension fund filed a purported derivative and class action complaint in Tennessee state court alleging that the directors of the Company breached their fiduciary duties by adopting a shareholder rights plan, which is further described in Note 17. On March 9, 2009, the Company reached an agreement in principle to settle the pending purported derivative and class action complaint. The Company and the plaintiffs in the action, together with their counsel, have agreed that the changes to the Company's Board of Directors and amendments to the Original Rights Agreement (as defined below in Note 17) reflected in the Amended Rights Agreement (as defined below in Note 17) will form the basis for that settlement. The settlement agreement between the parties was preliminarily approved by the court on June 9, 2009, and a final hearing on the settlement terms has been scheduled by the court for September 2009.

Through a joint venture arrangement with RREEF Global Opportunities Fund II, LLC, a private real estate fund managed by DB Real Estate Opportunities Group ( RREEF ), the Company holds an 18.1% ownership interest in Waipouli Holdings, LLC, which it acquired in exchange for its initial capital contribution of \$3.8 million to Waipouli Holdings, LLC in 2006. Through a wholly-owned subsidiary, Waipouli Owner, LLC, Waipouli Holdings, LLC owns the 311-room ResortQuest Kauai Beach at Makaiwa Hotel and related assets located in Kapaa, Hawaii ( the Kauai Hotel ). Waipouli Owner, LLC financed the purchase of the Kauai Hotel in 2006 by entering into a series of loan transactions with Morgan Stanley Mortgage Capital, Inc. (the Kauai Hotel Lender ) consisting of a \$52.0 million senior loan secured by the Kauai Hotel, an \$8.2 million senior mezzanine loan secured by the ownership interest of Waipouli Owner, LLC, and an \$8.2 million junior mezzanine loan secured by the ownership interest of Waipouli Owner, LLC (collectively, the Kauai Hotel Loans ). In connection with Waipouli Owner, LLC's execution of the Kauai Hotel Loans, RREEF entered into three separate Guaranties of Recourse Obligations with the Kauai Hotel Lender whereby it guaranteed Waipouli Owner, LLC's obligations under the Kauai Hotel Loans for as long as those loans remain outstanding (i) in the event of certain types of fraud, breaches of environmental representations or warranties, or breaches of certain special purpose entity covenants by Waipouli Owner, LLC, or (ii) in the event of bankruptcy or reorganization proceedings of Waipouli Owner, LLC. As a part of the joint venture arrangement and simultaneously with the closing of the purchase of the Kauai Hotel, the Company entered into a Contribution Agreement with RREEF, whereby the Company agreed that, in the event that RREEF is required to make any payments pursuant to the terms of these guarantees, it will contribute to RREEF an amount equal to its pro rata share of any such guaranty payments. The guarantee of the \$52.0 million senior loan was terminated in July



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2009. The Company estimates that the maximum potential amount that the Company could be liable for under this contribution agreement is \$3.0 million, which represents 18.1% of the \$16.4 million of total debt that is subject to the guarantees. As of June 30, 2009, the Company had not recorded any liability in the condensed consolidated balance sheet associated with this guarantee.

Through a joint venture arrangement with G.O. IB-SIV US, a private real estate fund managed by DB Real Estate Opportunities Group ( IB-SIV ), the Company holds a 19.9% ownership interest in RHAC Holdings, LLC, which it acquired in exchange for its initial capital contribution of \$4.7 million to RHAC Holdings, LLC in 2005. Through a wholly-owned subsidiary, RHAC, LLC, RHAC Holdings LLC owns the 716-room Aston Waikiki Beach Hotel and related assets located in Honolulu, Hawaii ( the Waikiki Hotel ). RHAC, LLC financed the purchase of the Waikiki Hotel by entering into a series of loan transactions with Greenwich Capital Financial Products, Inc. (the Waikiki Hotel Lender ) consisting of a \$70.0 million senior loan secured by the Waikiki Hotel and a \$16.3 million mezzanine loan secured by the ownership interest of RHAC, LLC (collectively, the Waikiki Hotel Loans ). On September 29, 2006, RHAC, LLC refinanced the Waikiki Hotel Loans with the Waikiki Hotel Lender, which resulted in the mezzanine loan increasing from \$16.3 million to \$34.9 million. In connection with RHAC, LLC 's execution of the Waikiki Hotel Loans, IB-SIV, entered into two separate Guaranties of Recourse Obligations with the Waikiki Hotel Lender whereby it guaranteed RHAC, LLC 's obligations under the Waikiki Hotel Loans for as long as those loans remain outstanding (i) in the event of certain types of fraud, breaches of environmental representations or warranties, or breaches of certain special purpose entity covenants by RHAC, LLC, or (ii) in the event of bankruptcy or reorganization proceedings of RHAC, LLC. As a part of the joint venture arrangement and simultaneously with the closing of the purchase of the Waikiki Hotel, the Company entered into a Contribution Agreement with IB-SIV, whereby the Company agreed that, in the event that IB-SIV is required to make any payments pursuant to the terms of these guarantees, it will contribute to IB-SIV an amount equal to 19.9% of any such guaranty payments. The Company estimates that the maximum potential amount for which the Company could be liable under this contribution agreement is \$20.9 million, which represents 19.9% of the \$104.9 million of total debt that RHAC, LLC owes to the Waikiki Hotel Lender as of June 30, 2009. As of June 30, 2009, the Company had not recorded any liability in the condensed consolidated balance sheet associated with this guarantee.

On February 22, 2005, the Company concluded the settlement of litigation with Nashville Hockey Club Limited Partnership ( NHC ), which owned the Nashville Predators NHL hockey team, over (i) NHC 's obligation to redeem the Company 's ownership interest, and (ii) the Company 's obligations under the Nashville Arena Naming Rights Agreement dated November 24, 1999. Under the Naming Rights Agreement, which had a 20-year term through 2018, the Company was required to make annual payments to NHC, beginning at \$2,050,000 in 1999 and with a 5% escalation each year thereafter, and to purchase a minimum number of tickets to Predators games each year. At the closing of the settlement, NHC redeemed all of the Company 's outstanding limited partnership units in the Predators pursuant to a Purchase Agreement dated February 22, 2005, effectively terminating the Company 's ownership interest in the Predators. In addition, the Naming Rights Agreement was cancelled pursuant to the Acknowledgment of Termination of Naming Rights Agreement. As a part of the settlement, the Company made a one-time cash payment to NHC of \$4 million and issued to NHC a 5-year, \$5 million promissory note bearing interest at 6% per annum. The note is payable at \$1 million per year for 5 years and has an outstanding balance of \$2.0 million as of June 30, 2009. The Company 's obligation to pay the outstanding amount under the note shall terminate immediately if, at any time before the note is paid in full, the Predators cease to be an NHL team playing their home games in Nashville, Tennessee. In addition, pursuant to a Consent Agreement among the Company, the National Hockey League and owners of NHC, the Company 's guaranty described below has been limited as described below.

In connection with the Company 's execution of an Agreement of Limited Partnership with NHC on June 25, 1997, the Company, its subsidiary CCK, Inc., Craig Leipold, Helen Johnson-Leipold (Mr. Leipold 's wife) and Samuel C. Johnson (Mr. Leipold 's father-in-law) entered into a guaranty agreement executed in favor of the National Hockey League (NHL). This agreement provides for a continuing guarantee of the following obligations for as long as either of these obligations remains outstanding: (i) all obligations under the expansion

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agreement between NHC and the NHL; and (ii) all operating expenses of NHC. The maximum potential amount which the Company and CCK, collectively, could be liable under the guaranty agreement is \$15.0 million, although the Company and CCK would have recourse against the other guarantors if required to make payments under the guarantee. In connection with the legal settlement with the Nashville Predators consummated on February 22, 2005, this guaranty has been limited so that the Company is not responsible for any debt, obligation or liability of NHC that arises from any act, omission or circumstance occurring after the date of the legal settlement. As of June 30, 2009, the Company had not recorded any liability in the condensed consolidated balance sheet associated with this guarantee. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of claims relating to workers' compensation, employee medical benefits and general liability for which it is self-insured. The Company has entered into employment agreements with certain officers, which provides for severance payments upon certain events, including certain terminations in connection with a change of control. The Company, in the ordinary course of business, is involved in certain legal actions and claims on a variety of other matters. It is the opinion of management that such legal actions will not have a material effect on the results of operations, financial condition or liquidity of the Company.

**16. FAIR VALUE MEASUREMENTS:**

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2009, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These included the Company's derivative instruments related to interest rates and natural gas prices and investments held in conjunction with the Company's non-qualified contributory deferred compensation plan.

The Company's interest rate and natural gas derivative instruments consist of over-the-counter swap contracts, which are not traded on a public exchange. See Note 10 for further information on the Company's derivative instruments and hedging activities. The Company determines the fair values of these swap contracts based on quotes, with appropriate adjustments for any significant impact of non-performance risk of the parties to the swap contracts. Therefore, the Company has categorized these swap contracts as Level 2. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds.

The investments held by the Company in connection with its deferred compensation plan consist of mutual funds traded in an active market. The Company determined the fair value of these mutual funds based on the net asset value per unit of the funds or the portfolio, which is based upon quoted market prices in an active market. Therefore, the Company has categorized these investments as Level 1. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of investments it holds.



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The Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2009, were as follows (in thousands):

	<b>June 30, 2009</b>	<b>Markets for Identical Assets (Level 1)</b>	<b>Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
Deferred compensation plan investments	\$ 10,086	\$ 10,086	\$	\$
Total assets measured at fair value	\$ 10,086	\$ 10,086	\$	\$
Variable to fixed natural gas swaps	\$ 769	\$	\$ 769	\$
Variable to fixed interest rate swaps	26,016		26,016	
Total liabilities measured at fair value	\$ 26,785	\$	\$ 26,785	\$

The remainder of the assets and liabilities held by the Company at June 30, 2009 are not required to be measured at fair value. The carrying value of certain of these assets and liabilities do not approximate fair value, as described below.

As further discussed in Note 6, in connection with the development of Gaylord National, the Company received two notes receivable from Prince George's County, Maryland which had an aggregate carrying value of \$132.4 million as of June 30, 2009. The aggregate fair value of these notes receivable, based upon current market interest rates of notes receivable with comparable market ratings and current expectations about the timing of debt service payments under the notes, was approximately \$137 million as of June 30, 2009.

As more fully discussed in Note 9, the Company has \$790.5 million in borrowings outstanding under the \$1.0 Billion Credit Facility that accrue interest at a rate of LIBOR plus 2.50%. Because the margin of 2.50% is fixed, the carrying value of borrowings outstanding do not approximate fair value. The fair value of the \$790.5 million in borrowings outstanding under the \$1.0 Billion Credit Facility, based upon the present value of cash flows discounted at current market interest rates, was approximately \$740 million as of June 30, 2009.

As shown in Note 9, the Company has outstanding \$260.3 million in aggregate principal amount of Senior Notes due 2013 that accrue interest at a fixed rate of 8%. The fair value of this financial instrument, based upon quoted market prices, was \$220.0 million as of June 30, 2009.

As shown in Note 9, the Company has outstanding \$180.7 million in aggregate principal amount of Senior Notes due 2014 that accrue interest at a fixed rate of 6.75%. The fair value of this financial instrument, based upon quoted market prices, was \$138.3 million as of June 30, 2009.

The carrying amount of short-term financial instruments (cash, short-term investments, trade receivables, accounts payable and accrued liabilities) approximates fair value due to the short maturity of those instruments. The concentration of credit risk on trade receivables is minimized by the large and diverse nature of the Company's customer base.

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On March 9, 2009, the Company entered into an Amended and Restated Rights Agreement (the *Amended Rights Agreement*) with Computershare Trust Company, N.A., as rights agent (*Computershare*), which amends and restates the terms of the Company's shareholder rights plan, as set forth in the Rights Agreement dated as of August 12, 2008, by and between the Company and Computershare (the *Original Rights Agreement*).

The Amended Rights Agreement amended the Original Rights Agreement to: (i) increase the triggering ownership percentage from 15% to 22% of the Company's outstanding shares of common stock; and (ii) include provisions that define and establish procedures in the event that the Company receives a *Qualified Offer*. Under the Amended Rights Agreement, a *Qualified Offer* is a tender or exchange offer for all of the Company's outstanding common stock in which the same consideration per share is offered for all shares of common stock that (i) is fully financed, (ii) has an offer price per share exceeding the greater of (the *Minimum Per Share Offer Price*): (x) an amount that is 25% higher than the 12-month moving average closing price of the Company's common stock, and (y) an amount that is 25% higher than the closing price of the Company's common stock on the day immediately preceding commencement of the offer, (iii) generally remains open until at least the earlier of (x) 106 business days following the commencement of the offer, or (y) the business day immediately following the date on which the results of the vote adopting any redemption resolution at any special meeting of stockholders (as described below) is certified, (iv) is conditioned on the offeror being tendered at least 51% of the Company's common stock not held by the offeror, (v) assures a prompt second-step acquisition of shares not purchased in the initial offer at the same consideration as the initial offer, (vi) is only subject to customary closing conditions, and (vii) meets certain other requirements set forth in the Amended Rights Agreement.

The Amended Rights Agreement provides that, in the event that the Company receives a *Qualified Offer*, the Company's Board of Directors may, but is not obligated to, call a special meeting of stockholders for the purpose of voting on a resolution to accept the *Qualified Offer* and to authorize the redemption of the outstanding rights issued pursuant to the provisions of the Amended Rights Agreement. Such an action by stockholders would require the affirmative vote of the holders of a majority of the shares of the Company's common stock outstanding as of the record date for the special meeting (excluding for purposes of this calculation shares of the Company's common stock owned by the person making the *Qualified Offer*). If either (i) such a special meeting is not held within 105 business days following commencement of the *Qualified Offer* or (ii) at such a special meeting the Company's stockholders approve such action as set forth above, the Amended Rights Agreement provides that all of the outstanding rights will be redeemed.

***Agreements with Stockholders***

*Agreement with TRT Holdings, Inc.* On March 9, 2009, the Company entered into a settlement agreement (the *TRT Agreement*) with TRT Holdings, Inc., a Delaware corporation (*TRT*), which had previously submitted notice to the Company of its intention to nominate four individuals for election to the Company's Board of Directors at the Company's annual meeting of stockholders held on May 7, 2009 (the *Annual Meeting*) and to solicit proxies for the election of such nominees.

Prior to the execution of the TRT Agreement, the Company's Board of Directors consisted of nine directors. The TRT Agreement provided that, prior to the Annual Meeting, the Board of Directors would increase the size of the Board from nine to eleven directors. Under the terms of the TRT Agreement, TRT is entitled to name two directors for nomination by the Board and inclusion in the Company's proxy statement for the Annual Meeting and each of the annual meetings of stockholders in 2010 and 2011. The TRT nominees for the Annual Meeting were Robert B. Rowling and David W. Johnson. The TRT Agreement also requires the Board of Directors to

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nominate seven incumbent directors and two additional independent directors identified by the Nominating and Corporate Governance Committee after consultation with the Company's stockholders. The TRT Agreement provided that one TRT nominee will serve on each of the Executive Committee (which was increased in size to five directors), the Human Resources Committee and the Nominating and Corporate Governance Committee of the Board. In addition, the TRT Agreement provides that the Board will not increase the size of the Board to more than eleven dir